

2019 Budget and Tax Planning Highlights

2019 has been a steady year for change in the tax space. Below is a list of many tax planning opportunities (which is not exhaustive) and your individual circumstances must be considered. Consult your adviser before acting on any of the information in this document.

Individuals



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No more PAYG Summaries

From 1 July 2019 Employers are no longer required to issue PAYG Summaries to employees.

Instead the employer is required to be reporting all pays to the tax office through Single Touch Payroll (STP).

Once each Pay has been "Filed" with the tax office, you are able to download the information for your tax return through your myGov account.

If you have any further queries in relation to this matter please do not hesitate to contact our office.

Life Insurance in Superannuation

The Government will delay the start date for ensuring that insurance within superannuation is only offered on an opt-in basis for accounts with balances of less than \$6,000 and new accounts belonging to members under the age of 25 years to 1 October 2019.

New Low and Middle Income Tax Offset (LMITO)

The government has introduced a new LMITO which will be a non-refundable tax offset of up to \$530 per annum. It will be received as a lump sum on lodgement of your tax return. The LMITO cuts out when your taxable income exceeds \$125,334 in 2019.

Tax-Free Threshold and Tax Rates

The tax-free threshold for 2018/19 for Australian resident individuals remains at \$18,200. When combined with the Low Income Tax Offset, residents pay no tax on incomes below \$20,542. Higher thresholds apply to senior Australians and pensioners. For incomes above the thresholds, tax rates are slightly higher.

Review Salary Packages

Salary packaged benefits for employees with taxable income less than \$180,000 may be less attractive due to the change in the tax rates and thresholds.

New HELP repayment thresholds and rates to be introduced

The Government has announced that it will widen the repayment thresholds in a bid to accelerate HELP debt repayment from 1 July 2018.

The current minimum repayment threshold for the 2018/19 year is \$51,957 with a repayment rate of 2%. 2018/19 income in excess of \$107,214 attracts a repayment rate of 8%.

Business

Small Business Tax Break – Expanded again!!!

One of the biggest initiatives for small business for 2018/19 is the temporary increase to the instant asset write-off, allowing small business to claim plant and equipment purchases.

- Items costing less than \$20,000 purchased up to 28th January 2019 are immediately deductible. This initiative has now been extended out to 30 June 2020.
- Items costing less than \$25,000 purchased from 29th January 2019 to 7.30pm 2nd April 2019 are immediately deductible.
- Items costing less than \$30,000 purchased from 7.30pm 2nd April 2019 to 30th June 2019 are immediately deductible.

It is available for Small Businesses with a turnover of less than \$10M OR assets of less than \$6M, who are in the Simplified Tax System.

Single Touch Payroll (STP)

Single Touch Payroll (STP) is an electronic system of reporting your employee's pay information to the tax office each week\fortnight\month which means that you no longer have to lodge PAYG Summaries with the tax office.

It is compulsory for all employers from 1 July 2019.

"Taxable Payments Annual Report" for Building Industry, Cleaning and Courier Industries ... now extended to Security, Road Freight Transport and Computer System Design Industries from 1 July 2019.

These industries are required to complete a Taxable Payments Annual Report by 28th July 2019. The definition of these industries is very wide. Please contact us to determine whether this reporting obligation effects you. Items that are required in the report include:-

- Contractors ABN
- Contractors Name & Address
- Total GST paid to contractor
- Gross amount paid to contractor



Superannuation!

Superannuation Contribution Threshold

Employer and/or self-employed superannuation contributions must be paid to, and received by, the super fund before 30 June 2019 and must be within the contributions cap which is currently \$25,000 per individual.

Exemption from work test for voluntary contributions

From 1 Jul 2019, the Government will introduce an exemption from the work test for voluntary contributions to superannuation, for people aged 65-74 with superannuation balances below \$300,000, in the first year that they do not meet the work test requirements.

Super Co-Contribution from Government

The co-contribution is now 50% of personal non-deductible contributions, up to a maximum of \$500. The maximum eligible income for 2018/19 is \$52,697.

Spouse Contributions

Individuals up to and including the age of 74 years will be able to receive spouse contributions (with those 65 and 66 no longer needing to meet a work test).

Currently, those aged 70 and over cannot receive spouse contributions.

Tax Concession Reduction

High income earners (adjusted taxable income above \$250,000) will have the tax on superannuation contributions increased from 15% to 30%. The additional 15% tax will be assessed to the individual, which can be paid out of the super fund.

Excess Contributions

If you have inadvertently made super contributions in excess of the maximum deductible amount of \$25,000, you may be able to take the excess back out of your super fund. Multiple conditions apply, this should not be considered without advice.

Minimum Pension Payment

The minimum pension payment for account based pensions in 2018-19 should be paid before 30th June 2019 to ensure the 0% tax concession applies.

Ongoing Year End Issues

Small Business Entity (SBE)

- The taxpayer is eligible to be a small business entity if their annual turnover is less than \$10 million (up from \$2M in previous years)
- The benefits of being a small business entity include:
 - **Company tax rate of 27.5%.**
 - Small business CGT concessions.
 - Simplified depreciation rules;
 - Simplified trading stock regime;
 - Can claim expenses prepaid up to 12 months in advance.

- 8% Small Business Income Tax Offset capped at \$1,000 per individual per year

Removing tax deductibility of payments where withholding obligations have been disregarded

In the May 2018 budget the government has proposed that from 1 July 2019, businesses will no longer be able to claim a deduction for the following payments:

- Payments to their employees such as wages where they have not withheld any amount of PAYG from these payments (ie despite the fact the PAYG withholding requirements apply);
- Payments made by businesses to contractors where the contractor does not provide an ABN and the business does not withhold any amount of PAYG (despite the withholding requirements applying).

Timing of Income Derivation

- Consider whether you use cash or accruals accounting.
- Can you defer income receipt until after 30 June 2019?
- If you are in losses, can you accelerate the receipt of income prior to 30 June 2019 to recoup losses



Farm Management Deposits (FMD)

- FMDs allow primary producers to shift income from good years to bad years. To be eligible to use these deposits Taxpayers must be primary producers, with less than \$100,000 of non farm income. Minimum deposit and withdrawal is \$1,000.

Income Received in Advance

- Not taxed until services provided to customer where the income is:
 - credited to an unearned income suspense account;
 - released to profit when services are provided.

Timing of Expenses

- Expenses will be deductible if incurred by 30 June 2019;
- Provisions generally not deductible;
- Some accruals are not deductible;
- Some prepayments are not deductible;

- Interest deductions after business ceases may be deductible.

Repairs

- Deduct expenses for repairs and maintenance incurred on or before 30 June 2019, unless the expenditure relates to:
 - Initial repairs
 - Substantial replacement of an asset;
 - Improving an asset.

Gifts

- Donate to tax deductible charities on or before 30 June 2019.
- Check payment is to an endorsed "deductible gift recipient".
- Gift not deductible if some benefit is received by the donor unless given at an "eligible fundraising event".

Bad Debts

- Review all debts before 30 June 2019.
- Physically write off bad debts before year end.

Trading Stock

- Valuation – lower of cost, market value or replacement.
- Identify any obsolete stock – special valuation rule.
- Scrap unwanted stock by 30 June 2019.
- Small business entity taxpayers do not undertake a stock valuation if the difference between opening and closing value is less than \$5,000.

Prepayments/Advanced Expenditure

- Consider prepaying deductible expenditure by 30 June 2019.
- The prepayment rules can operate to spread the deduction over more than one year.
- The rules do not apply to salary, amounts required to be paid by law or a court, or expenditure under \$1,000.
- Small business entity taxpayers and non-business individuals are allowed prepayments if the benefit does not extend beyond 12 months.

Sale of Investments

- Where CGT assets will be realised for a gain, delay the sale until after 30 June, unless you have losses that may be lost because of the company or trust loss rules.
- Crystallise capital losses to offset against capital gains
 - the loss may be disallowed in the event of a wash sale where the loss asset or a similar asset is reacquired or continues to be controlled by the taxpayer.
- If assets have been held for less than 12 months consider delay of sale until 12 months to take advantage of the CGT discount concessions.

- Consider the small business concessions, which require the taxpayer to be a "small business entity".

Ceasing Business or Business Assets Sold

- Consider the consequences of payments for employee entitlements, the transfer of employee entitlements to a new employer, or the payment of redundancy payments.
- Are small business concessions, rollovers, or superannuation contributions available?
- Will there be any expenses incurred after business ceases – consider whether they are still deductible?

Business Related Costs and Certain Project Costs

- Deduction for project costs – deductible over the life of the project;
- Other business related costs are deductible immediately for certain costs that are not otherwise deductible or included in a CGT or capital allowance cost base.

Depreciation

- Scrap all obsolete items by 30 June 2019
- Increase depreciation rate by reassessing effective life of asset if use exceeds Tax Office estimates of effective life.
- Replacement of some items of less than \$1,000 (\$300 if not in business) may be deductible immediately
- Small business entity depreciation concessions:
 - Immediate deduction items costing less than \$20,000 up to 28Jan19, \$25,000 up to 2Apr19, \$30,000 up to 30Jun19;
 - Items of plant in excess of \$20,000/\$25,000/\$30,000 as discussed above – automatic pooling facility: 15% in first year, 30% rate in future years.

Imputation

- If shares are not held at risk for at least 45 full days the franking offset may not be available (except for individuals whose franking offset is less than \$5,000 pa).
- Non fixed trusts receiving dividends – beneficiaries must have a vested and indefeasible interest or franking offset may be lost unless a family trust election is made.
- Where more than one dividend is paid in a franking period, ensure all dividends have been franked in accordance with the benchmark percentage (franking percentage of first distribution).

Year End Tax Effective Investments

- Has the promoter obtained a product ruling?

- Is it the subject of an ATO Taxpayer Alert?
- Consider the impact of Part IVA and integrity measures.
- ATO warning signs include:
 - Arrangement contrived or artificial;
 - Limited or non recourse funding;
 - Minimal cash outlay;
 - In-built exit strategies;
 - High management fees or promoters' commission;
 - Arrangement not economically viable without the tax benefit;
 - The arrangement has not been independently assessed for economic viability; and
 - There are prepayments involved (may not be fully deductible in current year).

If you have any queries or would like to discuss any of the above matters further, please do not hesitate to contact me on 02 6645 2677 or via email.

AB ACCOUNTING MACLEAN

JW always

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